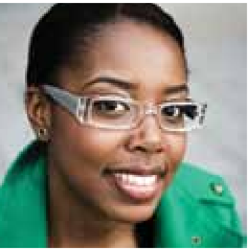



MISSOURI CONSOLIDATED HEALTH CARE PLAN

2009 ANNUAL REPORT

A Component Unit of the State of Missouri
Fiscal Year 2009 Comprehensive Annual Financial Report

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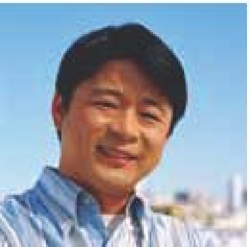
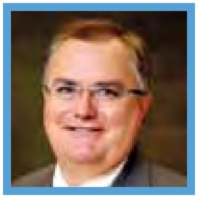


INTRODUCTORY SECTION

Letter from the Executive Director



Richard Bowles
Executive Director

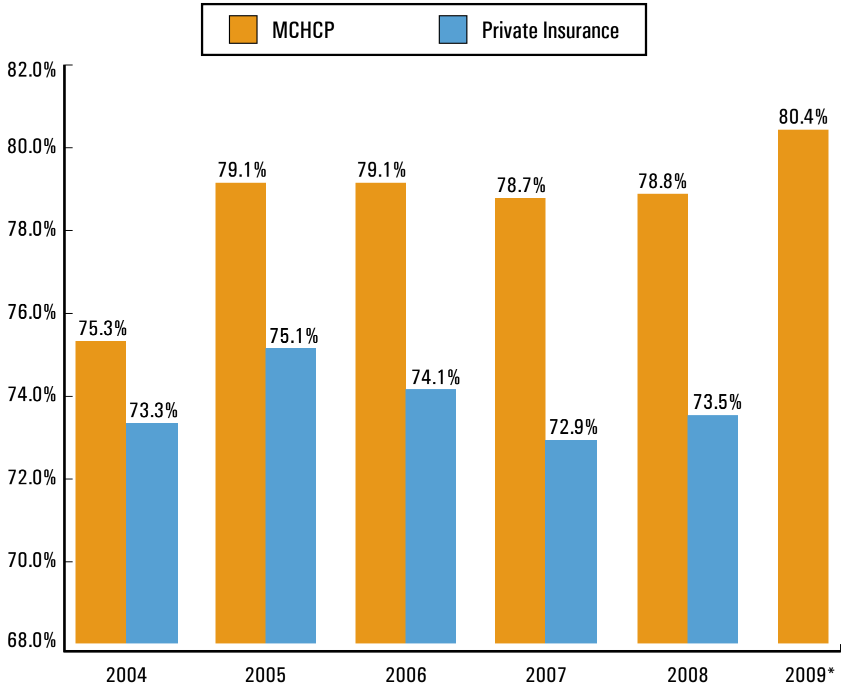
December 04, 2009

It is with great pleasure that I submit the annual report of the Missouri Consolidated Health Care Plan (MCHCP) for the period ended June 30, 2009. MCHCP is a component unit of the State of Missouri for financial reporting purposes and as such, the financial reports are also included in the State of Missouri Comprehensive Annual Financial Report. The financial information presented in this report is the responsibility of the management of MCHCP and sufficient internal accounting controls exist to provide a reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. The report is also designed to comply with the provisions of section 103.025 of the Revised Statutes of Missouri (RSMo) as amended.

During October 2009, I joined the MCHCP as the Executive Director. It has been my distinct honor to join together with the staff and the Board of Trustees to continue our mission to provide quality and affordable healthcare to the state and public membership we serve. We are challenged by the single largest economic downturn in over a generation. During fiscal year 2009 statewide revenues declined 6.9 percent compared to 2008, from $8 billion last year to $7.45 billion in 2009.[1] Estimates for fiscal year 2010 are expected to again reflect a bleak general revenue outlook. Administratively, we understand these challenges and strive to provide the most efficient and effective Plan management possible. I am pleased to report that during fiscal year 2009, Plan administration costs including our third party administration expenditures were less than 6 percent of overall Plan expenditures with less than 2 percent of those costs associated with our internal personnel and operations.

Revenues for fiscal year 2009 totaled over $500 million for both the Plan and the SRWBT with approximately $10 million attributable to our non state public membership. As health care costs and a tightened budget for the year required a significant use of reserves, careful monitoring of emerging trends in utilization and health care costs will be necessary. Additional financial information can be found in the management discussion and analysis and financial statements included in this report.

"Rising healthcare costs have led to significant increases in health insurance premiums, well outpacing increases in the Consumer Price Index. Employers continue to carry most of the cost of increasing health insurance premiums, covering nearly 75 percent of annual employee premiums." [2] Benefits remain an important fixture in the lives of state employees.



Although Missouri ranks 49th in average pay for state employees[3] , the state's commitment to the cost of state employee family coverage is higher than that provided by the private sector.

For the fourteenth year in a row, the MCHCP was pleased to receive the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to qualify, a government unit must publish a report conforming to all GFOA standards. The Certificate of Achievement is valid for a period of one year only. The MCHCP will continue to strive for such recognition with its submission of our current report for consideration to GFOA.

The report is a product of the combined efforts of the MCHCP staff and the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, for determining compliance with legal provisions and for evaluating the condition of the fund. MCHCP has received an unqualified opinion from our independent auditors whose report can be found on page 20.

This report is provided to the Governor, the State Auditor, members of the General Assembly, all state agencies, and all participating public entities. The cooperation and support of all these individuals and agencies help contribute to our success. Also, for the Board of Trustees, I would like to express sincere gratitude to the staff and advisors who have worked so diligently to assure the success of the Missouri Consolidated Health Care Plan during this past year.

In closing, I look forward to the opportunity and challenges the directorship of the MCHCP provides. I welcome your suggestions for the continued success of your state employee benefit plan – MCHCP.

Sincerely,

Richard Bowles
Executive Director
December 04, 2009

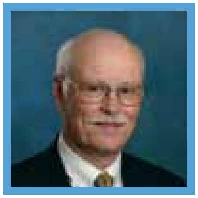
[1] State of Missouri Fiscal Year 2009 General Revenue Report

[2] Healthcare Trends in America: A Reference Guide from BCBSA (2009 Edition)

[3] U.S. Census; Public Fund Survey

* 2009 Private Insurance information unavailable

The Staff



Executive

Henry Curran - Associate Executive Director

Responsible for maintaining knowledge of health care trends and how they may impact the MCHCP; manages the research and data analysis section; coordinating the development, evaluation and award of Requests for Proposal (RFPs) and new products; assists in the negotiation and execution of contracts; follows applicable new state and federal regulations to ensure MCHCP's compliance; and assists the Director in daily management of the organization.

Consumer Affairs

Susan Hilkemeyer - Assistant Executive Director for Consumer Affairs

The Consumer Affairs area ensures the mission of MCHCP is achieved for state and public entity employees by overseeing all aspects of member related operations. The Assistant Executive Director of Consumer Affairs oversees the Director of Customer Support and the Member Records Supervisor. The Customer Support section is responsible for informing state employees and Missouri local governments about the health insurance plans available through the MCHCP. Staff provides opportunities for eligible state employees and local governments to participate in the plans offered through MCHCP. These opportunities include personal meetings, printed materials, audio and visual presentations. The Member Records section is responsible for maintaining all enrollment records for eligible members and for any changes to their coverage. They also administer coverage for retirees, survivors, members on leave of absence, those eligible for long term disability, vested members who leave employment and COBRA coverage under Federal guidelines. Member Records is also responsible for ensuring public entity contributions, state contributions and member contributions are appropriately applied to members' accounts.

General Counsel and Internal Audit

June Striegel Doughty - General Counsel

General Counsel represents and advises the Board of Trustees and MCHCP. She prepares, interprets, and analyzes legislation, rules, policies, and legal documents, including all contracts and trust agreements. General Counsel also serves as Privacy Officer to ensure MCHCP's and its contractors' compliance with HIPAA, and supervises the Internal Audit section. The Internal Audit section consists of an Internal Auditor and two Audit Technicians. Internal Audit is responsible for mitigating risk of loss from error, waste and misconduct and ensuring the use of sound business practices throughout the organization.

Clinical Review

Linda Grotewiel, RN - Director of Clinical Review

Clinical review serves as a liaison between members and the contracted providers to assist on a wide range of medical and pharmacy issues and interpretation of the benefits; reviews and assists with member appeals; oversees the wellness and disease management programs and evaluates the performance of the contracted vendors; and develops and administers guidelines and direction for compliance with medical care protocols and appropriate reimbursement.

Human Resources

Lorraine Mixon-Page, SPHR - Director of Human Resources

The Human Resources Director oversees all aspects of the MCHCP personnel program and develops and deploys new employee programs as needed. As the Chief HR professional, the Director takes a lead role with all workforce issues as well as workforce planning, spearheading initiatives to better develop and retain the employees of MCHCP.
In general, the Human Resources section works closely with department representatives on processes related to interviewing, selection, training/development, and discipline of employees while ensuring that accurate and timely job descriptions are present in the classification plan. The section handles wage and hour issues, worker's compensation reporting, and compliance with all federal, state and local personnel laws. Additionally, the HR Director is charged with ensuring fair and equitable treatment of all employees and candidates for employment, establishing and maintaining a fair compensation system, managing the performance management process, as well as writing and interpreting the MCHCP personnel policies and procedures.

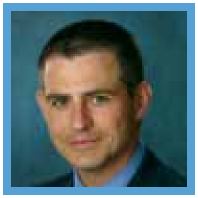
Customer Support and Marketing
Grace Rogers - Director of Customer Support

Customer Support is divided into two sections - Customer Relations and Communications. Customer Relations is comprised of eight Benefit Counselors, a receptionist, an Assistant Supervisor and the Call Center Coordinator. This section is responsible for resolving problems and answering questions regarding benefits and eligibility for members of MCHCP. The Communications section consists of five Communication Specialists, a Publication & Communication Specialist, three Communication Assistants and a Graphic Designer. Communications is responsible for educational and informational materials provided to state and public entity members. This section conducts educational meetings throughout the state for open enrollment, new employee orientation, active employee and pre-retirement seminars and payroll/personnel workshops. Communication Specialists also function as account representatives to the individual state agencies. In addition, communications markets our plans to public entities and also services the public entity members. This department serves as a liaison between members, human resources/personnel and payroll representatives and the contracted insurance providers for MCHCP. Ultimately, Customer Support is responsible for customer support and customer satisfaction.

The Marketing section is responsible for informing and communicating with Missouri local governments about the health insurance plans available through the MCHCP. Staff provides numerous opportunities for eligible local governments to consider participating in the plans offered through the MCHCP. These opportunities include but are not limited to personal meetings, printed materials, audio and visual presentations. MCHCP also uses the services of contracted brokers who are trained by the marketing staff. There are currently five people in this section who are specialists in marketing, health insurance, risk management and administration.

Fiscal Affairs
Stacia G. Fischer, CGFM - Chief Fiscal Officer

The Fiscal Affairs section is responsible for all financial statements and records of the programs administered by MCHCP, including preparation of the Comprehensive Annual Financial Report (CAFR). Fiscal Affairs performs all purchasing functions for MCHCP, coordinates banking services, interfaces with the Office of Administration, accounting and budgeting departments, various payroll/personnel officers of state departments, accounting offices of health maintenance organizations, consultants, actuaries, banks and the IRS. The Fiscal Affairs section is staffed by six individuals with specialties in Accounting and Business Administration.



Information Technology Services
Bruce R. Lowe - Director of Information Technology

The Information Technology Services department is responsible for meeting the technology needs of all operations throughout the MCHCP. From internal operation controls to external public access, IT services ensure all data is handled in accordance with established government guidelines and regulations; sensitive to sound business practices, and proven industry standards.

The ITS Receiving Services section is responsible for all mail room activities, shipping and receiving, building maintenance and fleet management. The primary goal of this section is to continue to provide timely, accurate, and secure mail delivery to MCHCP members.

The ITS Technology section consists of specialists and analysts responsible for improving member quality of service by enhancing strategic partnerships, data exchange, internal process efficiency, information awareness, and web based applications. The primary goal of this section is the continued availability and integrity of all data processes in support of day to day operations and long term goals.

While always focused on information security and operational continuity, this section continues looking toward new technology based solutions and leveraging current resources to improve operational efficiency, communications, and overall member value. As always, we strive to bring the highest level of professionalism and service to all of our customers, both internal and external.

Professional Services

Auditors
Williams Keepers LLC
Heidi A. Chick, C.P.A.
Kelly Schwartze, C.P.A.

Banking
Central Trust Bank
David Meyer, C.P.A.

Consulting
Watson Wyatt Worldwide
Steve Korbecki
John Stahl
Sherri Potter

Dental Program
Delta Dental

Employee Assistance Program
Magellan Health Services

Disease Management Program
CareAllies

Health Maintenance Organization (HMO)
Coventry Health Care of Kansas
Mercy Health Plans
Premier Health Plans

Pharmacy Benefit Manager
Express Scripts, Inc.

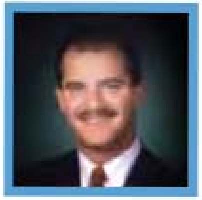
Preferred Provider Organization (PPO)
Coventry Health Care
Mercy Health Plans
Premier Health Plans

Point of Service (POS)
Mercy Health Plans
Premier Health Plans

Vision Program
Vision Service Plan

Wellness Program
Gordian Health Solutions, Inc.

Letter from the Chairman



Patrick Naeger
Chairman
Board of Trustees

December 04, 2009

It is with great pleasure that I present to you, on behalf of the Board of Trustees, the Comprehensive Annual Financial Report for the Missouri Consolidated Health Care Plan (MCHCP) for the period ending June 30, 2009.

During fiscal year 2009, the MCHCP entered our 15th year of offering quality and affordable health benefits to state and public entity employees. In January 1994, we opened our doors and serviced our members with fully insured coverage contracted through various health maintenance organizations (HMOs). Today, the Plan services over 108,000 state and public employees across every region of the State of Missouri through an expansive network of primarily self-insured offerings for both medical and pharmacy benefits. Intertwined in these efforts has been the challenge of maintaining the benefits you enjoy during the most difficult of financial times in modern history.

All across state government, agencies are being asked to do more with less. The MCHCP is no exception. During, fiscal year 2009, the MCHCP received $361.7M in state contributions, an increase of 4% over state contributions for fiscal year 2008 of $345.7M. Although we were fortunate to receive additional state funding in fiscal year 2009, the General Assembly asked the MCHCP to utilize cash reserves to help offset the actuarially projected increases inherent in medical claims increases. The largest component of Plan expenditures – medical claims and capitation expense increased for the same time period by over 14%. As state funding is so critical to the sound financial future of our Plan, we will continue to partner with the members of the General Assembly and the administration to discuss funding opportunities while fostering methods of health trend cost containment.

In October 2009, the Plan welcomed new leadership at the helm of the MCHCP. Richard (Rick) H. Bowles, after more than 25 years of executive management in the healthcare industry, begins his tenure as our Executive Director. Rick's extensive background includes health plan operations, business reengineering, pharmacy management, public health policy and consulting. We look forward to developing the future of the MCHCP together with Rick. Prior to Rick's hiring, Jan Jackson served as both our Chief Counsel and Interim Executive Director. I wish to thank Jan for her tireless leadership and devotion to the Plan during this period allowing for such a successful transition. Also notably, I would like to thank Ron Meyer for his leadership and dedicated service to the Plan for over 21 years. Ron's vision in the Plan's formative years led to many of the successes enjoyed by the MCHCP. On behalf of the Board of Trustees, I wish Ron and his wife Colleen many years of joyous retirement.

In closing, on behalf of the Board of Trustees, I wish to take this opportunity to thank the staff and those who have joined with us this past year in our mission of providing quality and affordable health care to the membership of the MCHCP. The Board welcomes your comments and suggestions on ways to improve the future of your MCHCP.

Sincerely,

Patrick A. Naeger
Chairman
Board of Trustees

Board of Trustees

† Denotes committee chairman

Honorable Frank Barnitz
Missouri State Senate, State Capitol, Jefferson City

Appointed by the President Pro Tem of the Senate

Committees:
Benefits, Budget

Honorable Tom Dempsey
Missouri State Senate, State Capitol, Jefferson City

Appointed by the President Pro Tem of the Senate

Margaret T. Donnelly
Director, Department of Health and Senior Services, Jefferson City

Ex Officio Member

Committees:
Benefits, Personnel

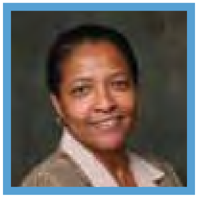
John M. Huff
Director, Department of Insurance, Financial Institutions & Professional Registration, Jefferson City

Ex Officio Member

Committees:
Appeals, Benefits

Nikki Loethen
Deputy General Counsel, Office of the Governor, Jefferson City

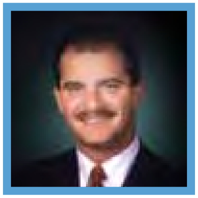
Governor Appointed Member



Roslyn Morgan, Vice Chairman
Probation and Parole, St. Louis

Governor Appointed Member

Committees:
Appeals †, Audit, Executive



Patrick Naeger, Chairman
President, Healthcare Mobility, Inc., St. Louis

Governor Appointed Member

Committees:
Audit †, Executive †

Photo not available.

Kaye Newsome
Vice President of Client Relations, Meritain Health, Kansas City

Governor Appointed Member

Committees: Personnel

Carla Owens
Director of Communications and Public Affairs, Jim Casey Youth Opportunities Initiative, St. Louis

Governor Appointed Member

Honorable Robert Schaaf
House of Representatives, State Capitol, Jefferson City

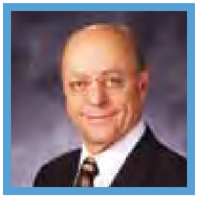
Appointed by the Speaker of the House of Representatives

Committees:
Benefits, Executive

Kelvin L. Simmons
Commissioner, Office of Administration, State Capitol, Jefferson City

Ex Officio Member

Committees:
Budget, Executive



Honorable Terry Swinger
House of Representatives, State Capitol, Jefferson City

Appointed by the Speaker of the House of Representatives

Committees:
Appeals, Personnel

Garry Taylor
Principal Owner, GETCo Consulting Service Missouri State Retiree, Jefferson City

Governor Appointed Member

Committees: Budget, Audit

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri Consolidated Health Care Plan

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Summary of Plan Provisions

Established January 1, 1994, the Missouri Consolidated Health Care Plan (MCHCP), is governed by the statutes of the State of Missouri.

Purpose

MCHCP was created to provide health care benefits to State active employees, retired, terminated-vested, long-term disability, survivors and their dependents and to eligible Missouri public entity employers. Currently, MCHCP administers medical benefits and an employee assistance program (EAP) for most eligible members of the Missouri State Employees' Retirement System, members of the Judicial Retirement Plan, legislators, statewide elected officials and certain members of the Public School Retirement System as well as enrolled Missouri public entities. In addition, dental and vision benefits are available to State employees including the Departments of Conservation, Transportation and the Missouri Highway Patrol. MCHCP is a nonprofit entity responsible for administering the law in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the State of Missouri, the taxpayers and its members.

Administration

This is a summary of the Revised Statutes of Missouri (RSMo), as amended, which governs the programs MCHCP administers. It does not amend or overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule applies.

The statutes provide that the administration of MCHCP be vested in a thirteen (13) member Board of Trustees. The Board is comprised of:

- The Director of the Department of Health and Senior Services, serving ex officio
- The Director of the Department of Insurance, Financial Institutions and Professional Registration serving ex officio
- The Commissioner of the State Office of Administration, serving ex officio
- Two members of the Senate, appointed by the President Pro Tem of the Senate
- Two members of the House of Representatives, appointed by the the Speaker of the House of Representatives
- Six members appointed by the Governor with the advice and consent of the Senate. Of the six members appointed by the Governor, three shall be citizens of the state of Missouri who are not members of the plan, but who are familiar with medical issues. The remaining three members of the Board shall be members of the Plan.

  The management of MCHCP is the responsibility of the Executive Director who is appointed by the Board of Trustees and serves at its pleasure.
- The Executive Director acts as advisor to the Board on all matters pertaining to MCHCP and, with the approval of the Board, contracts for professional services and employs the staff needed to operate the organization.

MCHCP employed 71 individuals at June 30, 2009 focused on the administration of employee benefits. Specialties include executive management, consumer affairs, legal and internal audit, medical management, human resources, member records, customer support, marketing, fiscal and information technology.

Medical Insurance

MCHCP offers insurance coverage to State and Public Entity members. Preferred Provider Organizations (PPO), Health Maintenance Organizations (HMO) and High Deductible Health Care Plans with Health Savings Accounts (HDHP with HSA) are available to State members. Plan offerings may vary by region. Point of Service (POS), HMO, PPO and HDHP with HSA plans are offered to Public Entity members.

Health Maintenance Organization (HMO)

An HMO is a health care delivery system that utilizes a network of providers to provide all necessary health care. The network includes physicians, hospitals, laboratories and other ancillary providers. In some cases, health care is directed through a primary care physician (PCP) who acts as a “gatekeeper” to all required health care services. Generally, all services can be provided within the network; however, if a service cannot be provided, the HMO will make arrangements for the member to receive services elsewhere. Non-network services received are not covered unless they are due to a medical emergency or with prior approval from the HMO. In most cases, members pay set copayment amounts for services provided.

Preferred Provider Organization (PPO)

MCHCP’s PPO plan is a comprehensive major medical plan which uses a network of preferred providers. A PPO plan allows members to use any provider. However, by utilizing the PPO network, members’ claims are paid at a higher percentage.

The PPO (Copay Plan) has network benefits with set copayments. The non-network benefits require that a deductible is met before claims are paid at 70/30 percent. The public entity PPO plans require that deductibles be met before most claims are paid at varying percentages based on the PPO plan selected.

Point of Service (POS)

The POS health plan is available to Public Entities in the central, east and southwest regions of the State. It is a health care plan which provides network and non-network benefits. Claims payment is determined at the point where the member receives services or care. Members are responsible for set copayment amounts when accessing care within the plan’s network of providers. If non-network providers are used, services are subject to a deductible and coinsurance amount.

High Deductible Health Plan with Health Savings Account (HDHP with HSA)

The HDHP with HSA plan is available to State and Public Entity members. The plan provides comprehensive medical coverage for medical expenses and a tax-advantaged way to help members save for future medical expenses. Enrollment in an MCHCP qualified HDHP is required for participation in a Health Savings Account (HSA). The Internal Revenue Service establishes maximum annual HSA contribution amounts, but there is no limit on the balance of the HSA. MCHCP contributes funds to the HSA on a monthly basis. HSA funds can be used for qualified medical and pharmacy expenses and deductible and coinsurance amounts.

Active Employees

Members working for an agency covered by MCHCP are eligible for medical coverage on the first of the month following their date of employment.

Retired Employees

Retiring employees may participate in an MCHCP plan if they have been covered under MCHCP since the effective date of the last open enrollment period, if they had continuous coverage under another medical plan for six months immediately prior to termination of state employment or since they were first eligible for medical coverage. When a retiree becomes eligible for Medicare, Medicare becomes the primary payor.

COBRA & Vested Participants

Under federal COBRA law, employees may continue their medical coverage at employment termination, but participants must pay the entire cost of coverage and cannot be eligible for Medicare or covered by another group health plan. Terminated-vested members may elect to participate in an MCHCP plan if they had coverage since the effective date of the last open enrollment period, if they had continuous coverage under another medical plan for six months immediately prior to employment termination, or since they were first eligible for medical coverage.

FINANCIAL SECTION

Report of Independent Auditors

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.williamskeepers.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Missouri Consolidated Health Care Plan

We have audited the accompanying financial statements of each major fund of Missouri Consolidated Health Care Plan (the Plan) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Plan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Plan as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements of the Plan, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams Keepers LLC

December 04, 2009

Management's Discussion and Analysis

This section of the annual financial report provides an overview and analysis of the financial activities of the Missouri Consolidated Health Care Plan (MCHCP) for the fiscal years ended June 30, 2009 through 2007. We encourage you to consider the information presented here in conjunction with additional information presented in the basic financial statements which follow this section.

Fiscal year ended June 30, 2009 became the second year of presentation for the adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Implementation was not required until fiscal year 2008 because MCHCP previously accounted and reported for its activities under GASB #10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues. GASB #10 was amended by GASB #45 but remained in effect for accounting for healthcare benefits to retirees until the effective date of GASB #45. Thus, GASB #45 was effective for MCHCP's fiscal year ended June 30, 2008.

As a result of implementation, MCHCP created a separate fiduciary trust fund (State Retiree Welfare Benefit Trust or SRWBT) to handle the post-employment benefits for state employees. Prior to that time, the Internal Service Fund (ISF) of MCHCP handled both active and retired participants. For the current fiscal year, even though there was no significant change from an operational aspect, the net assets and activity related to active participants is reported in the ISF and the net assets and activity related to retired participants is reported in the SRWBT in the accompanying financial statements.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MCHCP, like other discretely presented component units of the State of Missouri (as defined by GASB Statement No. 14), uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. The ISF is considered to be a proprietary fund while SRWBT is classified as a fiduciary fund. MCHCP does not have any governmental funds.

Proprietary funds. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MCHCP maintains one type: internal service fund. Internal service funds account for the financing of goods or services provided by one governmental department or agency to another and are expected to be self-supporting through charges to users. MCHCP's purpose is to provide medical insurance benefits to the State of Missouri's and other participating Missouri public entities' employees, retirees, and their dependents.

Fiduciary Funds. Fiduciary funds account for assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. Fiduciary fund accounting is similar to that used for proprietary funds. The purpose of the SRWBT is to provide health and welfare benefits for the exclusive benefit of current and retired employees of the State and their dependents who meet eligibility requirements except for those retired members covered by other post employment benefit (OPEB) plans of the State.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. Typically, governmental financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, because the Plan has only proprietary and fiduciary funds, government-wide financial statements are not presented. Proprietary funds present financial statement information in the same manner as government-wide financial statements only with more detail, and government-wide financial statements would be repetitive. In addition, fiduciary funds are not reflected in government-wide financial statements because the resources of that fund are not available to support MCHCP's own programs.

MCHCP presents the ISF and SRWBT on separate fund financial statements. For the ISF, the basic financial statements are comprised of the Balance Sheet; the Statement of Revenues, Expenses and Change in Net Assets; and the Statement of Cash Flows. For SRWBT, the basic financial statements are comprised of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are also part of the basic financial statements and apply to both the ISF and SRWBT. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental benefit plans.

The Balance Sheet and Statement of Plan Net Assets present MCHCP's financial position as of the end of the fiscal year for each fund.

Condensed Balance Sheets

Internal Service Fund

	2009	2008	2007
ASSETS			
Current assets	$ 97,228,281	$ 178,689,549	$ 202,044,507
Capital assets	590,529	605,261	426,853
Total assets	$ 97,818,810	$ 179,294,810	$ 202,471,360
LIABILITIES AND NET ASSETS			
Accrued medical claims and fees	$ 52,632,962	$ 46,018,127	$ 49,625,271
Deferred premiums and other liabilities	24,391,254	27,051,158	20,439,807
Total current liabilities	77,024,216	73,069,285	70,065,078
Net assets:			
Unrestricted	20,305,859	105,777,582	132,005,707
Invested in capital assets, net of liabilities	488,735	447,943	400,575
Total net assets	$ 20,794,594	$ 106,225,525	132,406,282
Total liabilities and net assets	$ 97,818,810	$ 179,294,810	$ 202,471,360

Information is displayed as assets and liabilities, with the difference between the two reported as net assets or deficit. The net assets of MCHCP reflect the resources available as of the end of the fiscal year to pay benefits to members when due. Over time, increases and decreases in net assets measure whether MCHCP's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Assets and the Statement of Changes in Plan Net Assets present information detailing the revenues and expenses that resulted in the change in net assets that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-funded plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

Condensed Statements of Revenue, Expenses and Change in Net Assets

Internal Service Fund

	2009	2008	2007
Operating revenues:			
State/employer contributions	$ 270,289,644	$ 276,886,166	$ 362,001,092
State employees/members contributions	65,348,201	57,339,368	93,152,562
Public entities contributions	9,966,190	10,008,570	9,121,094
Subcontractor and other rebates	4,603,754	5,033,832	10,150,614
Total operating revenues	350,207,789	349,267,936	474,425,362
Operating expenses:			
Medical claims and capitation expense	431,216,276	376,273,599	437,756,209
General and administration expense	6,927,014	6,274,233	7,573,108
Total operating expenses	438,143,290	382,547,832	445,329,317
Operating income (loss)	(87,935,501)	(33,279,896)	29,096,045
Investment income and other changes	2,504,570	7,099,139	9,104,038
Excess (deficiency) of revenues over expenses	(85,430,931)	(26,180,757)	38,200,083
Net assets, beginning of the year	106,225,525	132,406,282	94,206,199
Net assets, end of the year	$ 20,794,594	$ 106,225,525	$ 132,406,282

State Retiree Welfare Benefit Trust: Statements of Plan Net Assets

As of June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 17,705,752	$ 15,646,388
Due from MCHCP	12,626,061	10,258,019
Investments	29,865,200	-
RECEIVABLES		
Prescription drug rebates	1,334,555	1,360,914
Retiree drug subsidy	1,701,346	1,951,839
Other receivables	269,688	-
Total receivables	3,305,589	3,312,753
Total assets	63,502,602	29,217,160
LIABILITIES		
Accrued medical claims and fees	11,278,000	10,451,100
Deferred revenue	3,456,496	2,995,751
Other liabilities	116,532	123,921
Total liabilities	14,851,028	13,570,772
Net assets, held in trust for other post-employment benefits	$ 48,651,574	$ 15,646,388

State Retiree Welfare Benefit Trust: Statements of Changes in Plan Net Assets

For the years ended June 30, 2009 and 2008

	2009	2008
Additions:		
Employer contributions	$ 91,446,684	$ 68,826,446
Employee contributions	47,116,522	40,826,303
Interest income	677,279	184,592
Retiree Drug Subsidy and other rebates	8,095,327	8,079,801
Total additions	147,335,812	117,917,142
Deductions:		
Medical claims and capitation expense	105,946,408	94,399,433
Claims administration services	4,769,792	4,557,702
Administration and other	3,614,426	3,313,619
Total deductions	114,330,626	102,270,754
Net increase	33,005,186	15,646,388
Net assets held in trust for other post-employment benefits:		
Beginning of year	15,646,388	-
End of year	$ 48,651,574	$ 15,646,388

The Statement of Cash Flows presents the cash inflows and outflows of the ISF categorized by operating, capital and related financing, and investing activities. It reconciles the beginning and end of year cash balances contained in the Balance Sheet. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statement of Revenue, Expenses and Change in Net Assets. A statement of cash flows is not required for the SRWBT.

The Notes to Financial Statements follow the above basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The previous tables present summarized financial position and results for the fiscal years ending June 30, 2009, 2008, and 2007. Additional details are available in the accompanying basic financial statements. For fiscal years ended June 30, 2009 and 2008, comments are separated between the ISF (active participants) and the SRWBT (retired participants) as appropriate. For fiscal year 2007, the term "the Plan" refers to the Internal Service Fund including both active and retired participants.

Current assets have decreased for each of the years ended June 30, 2009 and 2008 over 2007 due primarily to decreases in cash and cash equivalents. Fiscal year 2008 represented the initial year of presentation for the SRWBT with assets of the SRWBT presented separately in the Statement of Plan Net Assets. Prior to 2008 and the creation of the SRWBT, all asset activity for both active and retired members was accounted for in the ISF's Balance Sheet.

The increase in rebates and other receivables during 2009 over 2008 is due primarily through the MCHCP reaching a memorandum of understanding (MOU) with a health maintenance organization (HMO) in consideration of claims overpayments made by the HMO in the amount of $4 million. Rebates for 2009 over 2008 were decreased due mainly to an interim adjustment from CMS for Medicare Part D rebates paid in excess by CMS over eligible payments of approximately $450,000. Pharmacy rebates receivable at June 30, 2009, for the ISF were $2,175,414 while rebates for the SRWBT totaled $3,035,901. During 2008, rebates as a component of rebate and other receivables for the ISF totaled $2,179,550 while rebates for the SRWBT amounted to $3,312,753, or approximately 60% of the rebates due in total for the year. Other receivables for 2008 increased due to approximately $1.5 million in claims overpayments due the ISF at June 30, 2008, from a third party administrator (TPA). Rebates as a portion of rebates and other receivables in 2007 were due primarily to the Plan's effective management of generic prescription substitutions from previously prescribed brand name alternatives. Under the Medicare Modernization Act (MMA), a federal program, the retiree drug subsidy is one of the options designed to encourage employers to continue to provide prescription drug coverage to Medicare-eligible retirees at a lower cost while retaining current plan design.

Capital asset activity has been minimal as operations have not significantly changed during the years presented.

Accrued medical claims and fees increased for the ISF and the SRWBT in 2009 due mainly to an increase in covered population, higher than assumed trend, and increases in the duration of claims payments. During 2008, the initial year of separating the activity for medical claims and fees for active participants and activity attributable to the SRWBT, medical claims and capitation fee expenses for the Plan

and SRWBT were $46,018,127 and $10,451,100, respectively. Accrued medical claims and fees for both actives and retirees in 2007 were $49,625,271. Beginning in January 2009, the public entity medical cost became self insured.

Accounts payable and accrued expenses for 2009 over 2008 had minimal change, but decreased significantly in 2008 in comparison to 2007 due mainly to approximately $1 million in State contributions due back to the State for transfers made to MCHCP after the month of employee termination for the period January 1, 2007 through June 30, 2007.

The most significant change to deferred premiums and other liabilities occurred in 2009 due to approximately $5.2 million in state contributions historically transferred prior to fiscal year end being received after July 1, 2009. In total, both the ISF and SRWBT totaled deferred premiums in the amount of $14,852,670. Deferred premiums and other liabilities are most significantly influenced by the state's payroll cycle and the timing of receipt of premium payments to MCHCP prior to the effective date of coverage. Deferred revenues for 2008 were comprised of $16,400,723 for the ISF and $2,995,751 attributable to the SRWBT. SRWBT deferred revenues are composed of premium deductions from retiree benefit checks received from MOSERS prior to the month of coverage.

State/Employer contributions for fiscal years 2009 and 2008 for both the ISF and the SRWBT totaled $361,736,328 and $345,712,612, respectively. This represented a 4.6% increase in contributions over 2008 with the majority of the funding increase attributable to the state's commitment to funding for Other Post Employment Benefits (OPEB). Funding to the ISF was reduced by the General Assembly during fiscal years 2009 and 2008 from department requests in an effort to reduce the reserve balances of the ISF. State/Employer contributions for fiscal year 2007 totaled $362,001,092.

Premium rates are based on historical experience and estimates of future trends. Continuing increases in premiums have caused a number of Missouri local government entities (public entities) to leave the ISF Plan. Public entity enrollment for 2009 decreased by approximately 9%, but with the mix of enrollment and annual premium increases, had minimal impact on contributions. Additionally for 2008, although enrollment decreased by approximately 2%, revenues increased in 2008 by approximately 10% due to the mix of enrollment and the fact that average enrollment for the year was relatively stable through the end of the year. Public entity contributions for 2007 totaled $9,121,094.

Beginning January 1, 2006, Medicare prescription drug coverage was made available to all people with Medicare, regardless of income, health status, or current health care. Because the prescription drug coverage offered by MCHCP was actuarially considered, on average for all plan participants, at least as good as standard Medicare coverage, members were encouraged to keep their MCHCP coverage. During fiscal years 2009 and 2008, the SRWBT received $8,095,327 and $8,079,071 in subsidy payments while 2007 totals for the Plan were $4,472,408. This increase in 2008 over 2007 is mainly the result of additional eligible drug payments for both fiscal years 2007 and 2006 being received by the SRWBT in 2008.

Wellness and disease management programs were introduced in an effort to promote healthy member outcomes and for cost containment measures. Program expenses for wellness and disease management for both the ISF and the SRWBT in 2009 and 2008 totaled $5,945,616

and $5,551,178, respectively. Self-funded health care costs for 2009 and 2008 for both the ISF and the SRWBT totaled $448,527,507 and $393,124,793, respectively. Increases are attributable to higher than actuarially assumed health care trend and an increase of approximately 3% in covered enrollment for 2009 over 2008. Self-funded health care costs for 2007 increased to approximately 87% of the over $437 million in total claims and administrative service costs. Medical claims and capitation expense increased in 2008 by approximately 9% over 2007 due mainly to normal increases in medical cost trends and an increase in over 1,400 lives covered by the ISF in 2008. Claims administrative services costs is reflective of enrollment in self-funded options for the periods of 2009 through 2007.

MCHCP's cash is invested conservatively in overnight repurchase agreements to preserve principal and maintain liquidity. MCHCP has invested approximately $30,000,000 in longer term maturities in an effort to maximize return on investment and to diversify the portfolio. Investment income, which consists of interest income, unrealized gains and losses in fair value, accretion of discounts, and amortization of premiums, decreased in 2009 over 2008 due mainly to the lack of availability of investable assets. The MCHCP, through appropriated funding being less than department requests, was required to utilize reserves for claims payments. In addition, the general economic conditions facing returns on investment during the current economic climate impacted returns. Investment income for the ISF and the SRWBT was realized in the amount of $3,182,461 for 2009, $7,283,731 for 2008, and $9,107,395 for 2007.

MCHCP realized reductions in net assets for 2009 and 2008 due mainly to contributions from the state being lower than actuarially recommended, higher than actuarially projected claims costs, and increases in enrollment.

MCHCP's actuary reviews the financial assets of MCHCP's trust in conjunction with the reserve obligations and funding available as provided by the Missouri General Assembly. The actuary recommended to MCHCP Board of Trustees that the ISF maintain a minimum of reserves equal to three months of expected incurred claims in addition to the Incurred But Not Reported (IBNR) claims reserve. This recommended reserve is necessary in order to provide financial stability to the ISF and to ensure MCHCP's ability to meet its obligations to its members in the event of unforeseen or catastrophic events. MCHCP Board of Trustees voted to adopt the recommendation of the actuary. Due to the recent state of economic conditions facing the State and the reduction of reserves, the MCHCP, members of the General Assembly, and the state's budget office meet regularly to discuss funding needs and projected claims expenditures in an effort to meet funding needs.

Summary

During the years presented, MCHCP faced a tightened State budget, which compelled it to look at new products to offer. Combined with expected continued escalation in health care costs, MCHCP faces significant challenges in an effort to provide affordable health care coverage to its members. As a result, MCHCP has explored a full range of viable options to accommodate the State budget limitations, including changes in benefit design, modifications in copay and deductible amounts, increases in premiums, additional self-funded programs, and changes in provider networks. Wellness and disease management programs were developed to continue to foster healthier outcomes and reduce claims expenditures. MCHCP continues its expansion of self-insured coverage to additional areas of the State. The overall financial position of MCHCP is reliant upon state funding, cost containment and comprehensive benefits review of the self-funded programs to continue to generate a healthier membership in MCHCP.

Requests For Information

This financial report is designed to provide a general overview of MCHCP's financial position for all those with an interest in MCHCP. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Missouri Consolidated Healthcare Plan, 832 Weathered Rock Court, PO Box 104355, Jefferson City, Missouri 65110-4355.

Balance Sheets

Internal Service Fund

As of June 30, 2009 and 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,631,802	$ 143,591,344
Investments	31,531,794	30,915,773
Rebates and other receivables	7,931,005	4,083,531
Prepaid expenses	133,680	98,901
Total current assets	97,228,281	178,689,549
Capital assets:		
Furniture, fixtures and equipment, net of accumulated depreciation of $2,350,218 and $2,152,622 respectively	590,529	605,261
Total assets	$ 97,818,810	$ 179,294,810
LIABILITIES AND NET ASSETS		
Accrued medical claims and capitation fee expense	$ 52,632,962	$ 46,018,127
Accounts payable and accrued expenses	369,019	392,416
Due to SRWBT	12,626,061	10,258,019
Deferred premium revenue	11,396,174	16,400,723
Total current liabilities	77,024,216	73,069,285
Net assets:		
Unrestricted	20,305,859	105,777,582
Invested in capital assets, net of liabilities	488,735	447,943
Total net assets	$ 20,794,594	$ 106,225,525
Total liabilities and net assets	$ 97,818,810	$ 179,294,810

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Change in Net Assets

Internal Service Fund

For the years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
State/employer contributions	$ 270,289,644	$ 276,886,166
Member contributions	65,348,201	57,339,368
Public entity contributions	9,966,190	10,008,570
Pharmacy rebates	4,603,754	5,033,832
Total operating revenues	350,207,789	349,267,936
Operating expenses:		
Medical claims and capitation expense	411,593,266	357,621,982
Claims administration services	15,104,342	14,432,722
Payroll and related benefits	3,605,582	3,291,979
Health Management	4,518,668	4,218,895
Administration	1,488,013	1,400,526
Professional services	1,137,039	907,127
Employee Assistance Program	696,380	674,601
Total operating expenses	438,143,290	382,547,832
Operating revenues over (under) operating expenses	(87,935,501)	(33,279,896)
Nonoperating revenues:		
Investment income	2,504,570	7,099,139
Change in the net assets	(85,430,931)	(26,180,757)
Net assets, beginning of year	106,225,525	132,406,282
Net assets, end of year	$ 20,794,594	$ 106,225,525

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

For the years ended June 30, 2009 and 2008

		2009		2008
Cash flows from operating activities:				
Cash received from State, employer, members and public entities	$	341,380,717	$	347,460,343
Cash payments for medical claims and capitation fee payments		(404,978,431)		(361,229,116)
Cash payments to employees for services		(3,605,582)		(3,291,979)
Cash payments to other suppliers of goods and services		(22,629,385)		(22,381,900)
Net cash provided (used) by operating activities		(89,832,681)		(39,442,652)
Cash flows from noncapital financing activities:				
Changes in amounts due to SRWBT		2,368,042		10,258,018
Cash flows from capital and related financing activities:				
Purchase of furniture, fixtures and equipment		(359,116)		(499,909)
Cash flows from investing activities:				
Cash received from investment income; net of investment expenses		2,245,707		6,637,210
Purchases of investments		(60,920,586)		(144,931,626)
Proceeds from investments		60,539,092		145,043,314
Net cash provided (used) by investing activities		1,864,213		6,748,898
Net increase (decrease) in cash and cash equivalents		(85,959,542)		(22,935,645)
Cash and cash equivalents, beginning of year		143,591,344		166,526,989
Cash and cash equivalents, end of year	$	57,631,802	$	143,591,344
Reconciliation of operating revenues over operating expenses to net cash provided by operating activities:				
Operating revenues over (under) operating expenses	$	(87,935,501)	$	(33,279,896)
Adjustments to reconcile operating revenues over (under) operating expenses to net cash provided by operating activities:				
Depreciation		373,236		317,716
Changes in assets and liabilities:				
Rebates and other receivables		(3,822,523)		853,786
Prepaid expenses		(34,780)		(80,459)
Accrued medical claims and capitation fees		6,614,836		(3,607,144)
Accounts payable and accrued expenses		(23,399)		(985,276)
Deferred premium revenue		(5,004,550)		(2,661,379)
Total adjustments		(1,897,180)		(6,162,756)
Net cash provided by operating activities	$	(89,832,681)	$	(39,442,652)
Noncash investing, capital and financing activities:				
Decrease in fair value of investments	$	(332,791)	$	(107,576)

The accompanying notes are an integral part of the financial statements.

State Retiree Welfare Benefit Trust: Statements of Plan Net Assets

As of June 30, 2009 and 2008

		2009		2008
ASSETS				
Cash and cash equivalents	$	17,705,752	$	15,646,388
Due from MCHCP		12,626,061		10,258,019
Investments		29,865,200		-
RECEIVABLES				
Prescription drug rebates		1,334,555		1,360,914
Retiree drug subsidy		1,701,346		1,951,839
Other receivables		269,688		-
Total receivables		3,305,589		3,312,753
Total assets		63,502,602		29,217,160
LIABILITIES				
Accrued medical claims and capitation fees		11,278,000		10,451,100
Deferred revenue		3,456,496		2,995,751
Other liabilities		116,532		123,921
Total liabilities		14,851,028		13,570,772
Net assets, held in trust for other post-employment benefits	$	48,651,574	$	15,646,388

The accompanying notes are an integral part of the financial statements.

State Retiree Welfare Benefit Trust: Statements of Changes in Plan Net Assets

For the years ended June 30, 2009 and 2008

		2009		2008
Additions:				
Employer contributions	$	91,446,684	$	68,826,446
Employee contributions		47,116,522		40,826,303
Interest income		677,279		184,592
Retiree Drug Subsidy and other rebates		8,095,327		8,079,801
Total additions		147,335,812		117,917,142
Deductions:				
Medical claims and capitation expense		105,946,408		94,399,433
Claims administration services		4,769,792		4,557,702
Administration and other		3,614,426		3,313,619
Total deductions		114,330,626		102,270,754
Net increase		33,005,186		15,646,388
Net assets held in trust for other post-employment benefits:				
Beginning of year		15,646,388		-
End of year	$	48,651,574	$	15,646,388

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. General

The Missouri Consolidated Health Care Plan (Plan) was statutorily created and organized on January 1, 1994, with the purpose of providing medical insurance benefits to the State of Missouri's (State) employees, retirees and their dependents as well as other Missouri public entity employees, retirees and their dependents. Prior to 1994, medical insurance benefits for the State's employees, retirees and their dependents were provided by Missouri State Employees' Retirement System's (MOSERS) medical care plan. On January 1, 1994, through a transfer agreement between the Plan and MOSERS, all MOSERS related medical care plan assets and liabilities were transferred to the Plan.

The Plan's medical insurance benefits are provided through various health maintenance organizations (HMO) and self-funded HMOs. The Plan currently has over 106,000 active and retired state members and their dependents, 1,613 public entity members and their dependents, and over 108,000 covered lives and is funded through both employer and employee contributions. Through December 31, 1994, all Plan members were state employees, retirees and their dependents. Beginning January 1, 1995, additional members included public entity employees, retirees and their dependents.

State contribution rates are based on the State's approved appropriation and the number of anticipated participants. State employee and public entity contribution rates are established by the Plan's Board of Trustees based on contractor bids for the plan year and budgeted employer contributions.

Beginning in January 2006, the MCHCP contracted with vendors to provide both statewide wellness and disease management programs with the goal of improving healthy outcomes for its membership.

Governmental Accounting Standards Board (GASB) has two statements related to accounting and reporting for post employment benefits other than pensions (OPEB): GASB #45, Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions, which is first effective for certain governments with fiscal years beginning after December 15, 2006, and GASB #43, Financial Reporting for Post employment Benefit Plans Other Than Pension Plans, which is generally first effective one year prior to the effective dates of GASB #45.

MCHCP is considered an "agent multiple employer plan" because each employer remains individually responsible for financing its own commitment to provide benefits to its participants, including any eligible retirees. During the fiscal year ended June 30, 2008, MCHCP implemented the provisions of GASB Statement # 43. As a result of implementation, MCHCP created a separate fiduciary trust fund (State Retiree Welfare Benefit Trust or SRWBT) to handle the post-employment benefits for State employees.

SRWBT was established and organized on June 27, 2008, pursuant to the Revised Statutes of Missouri (2000) as amended ("RSMo") 103.003 through 103.178 to provide health and welfare benefits for the exclusive benefit of current and future retired employees of the State and their

dependents who meet eligibility requirements except for those retired members covered by other post employment benefit (OPEB) plans of the State. The SRWBT is considered an agent multiple employer plan and is administered by Plan staff under the direction of the Plan Board of Trustees.

As of June 30, 2009 and 2008 the net assets and activity related to active participants are reported in the ISF and the net assets and activity related to retired participants is reported in the SRWBT in the accompanying financial statements. In the following footnotes, the term "the Plan" refers to both the ISF and SRWBT. Disclosures that are specific to the ISF or SRWBT are separately noted.

The Plan is considered a part of the State's financial reporting entity and is included in the State's financial reports as a component unit. As the Plan is considered a political subunit of the State and provider of essential governmental services, it is not subject to federal income taxes, nor the provisions of the Employee Retirement Income Security Act of 1974.

The Plan is administered according to Missouri statutes. These statutes do not include a provision for the termination of the Plan.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The Plan's financial statements for the ISF were prepared using the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, establishes the accounting principles generally accepted in the United States of America hierarchy for proprietary funds. The statement requires that proprietary activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Plan must also apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements.

The financial statements of the SRWBT are intended to present the financial position and the changes in financial position of only that portion of the activities attributable to the transactions of the SRWBT. The SRWBT is accounted for as a fiduciary fund. Accordingly, the financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

B. Method Used to Value Assessments:

Investments are reported at fair value on a trade date basis with changes in fair value recorded in investment income on the statement of revenues, expenses and changes in net assets. Investments are recorded at fair value as determined by quoted market price, when available, or estimated fair value when not available. Many factors are considered in arriving at that fair market value. In general, however, bonds and mortgages are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Realized gains and losses are based on the specific identification basis. The calculation of realized gains and losses is independent of the calculation of the change in net unrealized gains and losses.

C. Deposits and Investments:

The Plan considers all highly liquid investments, readily convertible into cash with original maturities of three months or less to be cash equivalents.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan would not be able to recover deposits or collateral securities in the possession of an outside party. In an effort to mitigate custodial credit risk, the Plan requires the bank to sweep the accounts each night into overnight repurchase agreements for which the underlying securities must be of the type approved by the State. All remaining cash balances are to be insured or appropriately collateralized.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Plan would not be able to recover the value of investments or collateral securities in the possession of an outside party. The Plan does not have a formal policy regarding custodial credit risk. However, the bank acting as the investment manager has been approved by the Plan's Board of Trustees.

Deposits

Cash balances represent operating bank account balances. To maximize investment income, the float caused by outstanding checks is invested in overnight repurchase agreements, thus causing a negative carrying value.

At June 30, 2009 cash held in financial institution had a bank balance of $100,457 and a carrying value of ($17,406,647). Of the bank balance, $100,457 was covered by federal depository insurance. The remaining $92,774,200 of cash and cash equivalents are held in repurchase agreements and fully collateralized with securities held by a third-party financial institution in the Plan's name.

At June 30, 2008 cash held in financial institution had a bank balance of $428,769 and a carrying value of ($8,715,766). Of the bank balance, $100,000 was covered by federal depository insurance. The remaining $328,769 was collateralized with securities held by a third-party institution in the Plan's name. The remaining $167,953,498 of cash and cash equivalents are held in repurchase agreements and fully collateralized with securities held by a third-party financial institution in the Plan's name.

The Plan's contracted yield on its overnight repurchase agreements was 27 and 28.5 basis points above the prevailing ninety-one day U.S. Treasury Bill rate as of June 30, 2009 and 2008, respectively.

Investments

In December 2005, the Plan adopted a revised investment policy to maximize investment earnings for the ISF. The Plan's investment policy for the ISF is predicated on the primary objectives of safety, liquidity, and yield, in order of priority. Investments in bankers' acceptances and commercial paper are required to mature and become payable not more than one hundred eighty days from the date of purchase. All other investments are required to mature and become payable not more than five years from the date of purchase. The weighted average life should not exceed three years and be consistent with the investment objectives.

The Board of Trustees, in July 2008, adopted an asset allocation model for the SRWBT that implemented a moderate investment approach allocating 33% to equities. This approach was approved to steadily increase the exposure of the SRWBT to higher return asset classes over time. Exposure to equities will be through a combination of actively managed index funds and/or exchange traded funds that are highly rated and reviewed regularly. Allocations are back-tested and future assets are projected in all models.

The Plan follows the "prudent person" rule for investment decisions. Essentially, the Plan operates as a prudent person acting in a like capacity and familiar with similar matters would act in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibilities with respect to the Plan is covered by this "prudent person" rule. As of June 30, 2009 and 2008, the Plan had the following investments:

Types of Investments	ISF 2009 Market Value	ISF 2008 Market Value
U.S. Agencies	$ 19,876,701	$ 12,676,175
U.S. Government Guaranteed Mortgages	8,095,890	9,709,238
U.S. Treasury	3,559,203	3,494,317
Commercial Paper	-	5,036,043
Total Investments	$ 31,531,794	$ 30,915,773

Types of Investments	SRWBT 2009 Market Value
U.S. Agencies	$ 7,399,180
U.S. Government Guaranteed Mortgages	1,995,998
U.S. Treasury	4,330,165
Corporate	5,301,006
Collateralized Mortgage Obligations	10,838,851
Total Investments	$ 29,865,200

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the ISF's investment in a single issue. To mitigate this risk, the ISF's investment policy provides general guidelines on diversification. Investments in U.S. Treasuries and securities, collateralized time and demand deposits, and collateralized repurchase agreements can constitute up to 100% of the investment portfolio; U.S. government agencies, including mortgage backed securities, cannot exceed 60% of the portfolio; and U.S. government agency callable securities, bankers acceptances, and commercial paper cannot exceed 30% of the portfolio. The SRWBT has implemented an investment approach

allocating 33% to equities. At June 30, 2008 the ISF held the following investments in a single issue that exceeded 5% of total investments which were not U.S. securities. These holdings were within the ISF's investment policy guidelines. No such holdings existed at June 30, 2009. Carrying value of the investments is as follows:

June 30, 2008		
Merrill Lynch commercial paper	$	1,987,820

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation. The Plan minimizes this risk by only authorizing investment types approved by the Treasurer of the State of Missouri, limiting investments to the safest types of securities, and diversifying the portfolio so potential losses on individual securities will be minimized. The Plan does not have an investment policy designating a minimal rating. The Plan's investments by credit rating category as of June 30, 2009 and 2008 are presented below:

FY 2009

Types of Investments		ISF 2009 Market Value	ISF 2009 Avg. Ratings
U.S. Agencies	$	19,876,701	AAA/Aaa
U.S. Government Guaranteed Mortgages		8,095,890	AAA/Aaa
U.S. Treasury		3,559,203	AAA/Aaa
Total Investments	$	31,531,794	

FY 2008

Types of Investments		ISF 2008 Market Value	ISF 2008 Avg. Ratings
U.S. Agencies	$	12,676,175	AAA/Aaa
U.S. Government Guaranteed Mortgages		9,709,238	AAA/Aaa
U.S. Treasury		3,494,317	AAA/Aaa
Commercial Paper		5,036,043	A1/P1
Total Investments	$	30,915,773	

FY 2009

Types of Investments		SRWBT 2009 Market Value	SRWBT 2009 Avg. Ratings
U.S. Agencies	$	7,399,180	AAA/Aaa
U.S. Government Guaranteed Mortgages		1,995,998	AAA/Aaa
U.S. Treasury		4,330,165	AAA/Aaa
Corporate		5,301,006	A/A1
Collateralized Mortgage Obligations		10,838,851	AAA/Aaa
Total Investments	$	29,865,200	

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. The Plan minimizes this risk by 1) structuring the portfolio so securities mature to meet cash requirements for ongoing operations, 2) using cash flow modeling to moderate the interest rate risk by reducing any unanticipated security sales which could result in a loss of principal and 3) maintaining the operating funds primarily in repurchase agreements according to the banking contract. For the interest rate risk measurement for the Plan, Central Bank employs the duration method. The maturities of the Plan's investments as of June 30, 2009 and 2008 are presented below:

FY 2009

Types of Investments		ISF 2009 Market Value	ISF 2009 Avg. Duration
U.S. Agencies	$	19,876,701	2.18
U.S. Government Guaranteed Mortgages		8,095,890	0.71
U.S. Treasury		3,559,203	1.57
Total Investments	$	31,531,794	

FY 2008

Types of Investments		ISF 2008 Market Value	ISF 2008 Avg. Duration
U.S. Agencies	$	12,676,175	2.71
U.S. Government Guaranteed Mortgages		9,709,238	1.29
U.S. Treasury		3,494,317	2.48
Commercial Paper		5,036,043	0.08
Total Investments	$	30,915,773	

FY 2009

Types of Investments		SRWBT 2009 Market Value	SRWBT 2009 Avg. Duration
U.S. Agencies	$	7,399,180	6.90
U.S. Government Guaranteed Mortgages		1,995,998	3.75
U.S. Treasury		4,330,165	8.20
Corporate		5,301,006	4.89
Collateralized Mortgage Obligations		10,838,851	5.5
Total Investments	$	29,865,200	

Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates will adversely affect the fair value of an investment. The Plan has no investments subject to foreign currency risk.

D. Interfund Activity and Balances

As disclosed above, the ISF provides all administrative responsibilities related to SRWBT, which has no separate facilities or staff. Expenses directly attributable to SRWBT are charged to SRWBT. Other operating expenses, including personnel, are allocated between the ISF and the SRWBT based on participant counts for retired and active participants.

The balance of the interfund receivable/payable represents the excess of SRWBT contributions collected by the ISF Plan over expenses paid by the ISF Plan for SRWBT.

E. Receivables

As a Medicare Part D Prescription Drug Plan (PDP), the Plan receives a retiree drug subsidy from the federal government. For fiscal years ended June 30, 2009 and 2008, all amounts related to PDP are recorded in the SRWBT as the program is only for retirees. Estimated revenue is recognized as SRWBT incurs Medicare-eligible retiree prescription drug expenditures.

In addition, the Plan receives rebates from its pharmacy benefit manager related to manufacturers' rebates and other guaranteed rebates for non-Medicare Part D prescriptions. For the years ended June 30, 2009 and 2008, these rebates are allocated between the ISF and the SRWBT. Estimated revenue is recognized for rebates based on prescription claims counts and historical average rebate per claim.

Traditionally, receivables are comprised of primarily pharmacy rebates from the pharmacy benefit manager and the Medicare Part D subsidy. During 2009, the Plan reached a memorandum of understanding (MOU) with a Health Maintenance Organization (HMO) in consideration of claims overpayments in the amount of $4 million. Payment in relation to the MOU will occur in 2010. In addition, approximately $1.5 million in claims overpayments was due the Plan at June 30, 2008, from a third party administrator. The payments were received in July and August 2008.

F. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are capitalized at cost when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Furniture and fixtures are depreciated over a ten-year useful life. Data processing equipment is depreciated over a five-year useful life. Threshold for the capitalizing of assets is $250.

Furniture, Fixtures, and Equipment		
Balance June 30, 2008	$	2,757,883
Additions		362,569
Deletions		(179,705)
Balance June 30, 2009	$	2,940,747
Accumulated Depreciation		
Balance June 30, 2008	$	2,152,622
Depreciation Expense		373,236
Deletions		(175,640)
Balance June 30, 2009	$	2,350,218

Furniture, Fixtures, and Equipment		
Balance June 30, 2007	$	2,700,845
Additions		507,063
Deletions		(450,025)
Balance June 30, 2008	$	2,757,883
Accumulated Depreciation		
Balance June 30, 2007	$	2,273,992
Depreciation Expense		317,716
Deletions		(439,086)
Balance June 30, 2008	$	2,152,622

Maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the related accounts and the resulting gains or losses are reflected as nonoperating gains or losses in the statement of revenues, expenses and change in net assets.

The changes in Furniture, Fixtures & Equipment for the years ended June 30, 2009 and 2008 are as presented in the chart above.

G. Plan Funding

State Appropriations/Contributions

Funds are appropriated to the Plan by the Missouri State Legislature. Premiums are received one half prior to the month of coverage and one half during the month of coverage. Funds are received by the Plan every two weeks and coincide with the State's payroll cycle.

The State's monthly per member contributions for fiscal year 2009 was $540 per month. Contribution for fiscal year 2008 was $550 per month through April 15, 2008, and was adjusted each remaining pay cycle of fiscal year 2008. Contributions from April 30, 2008 through June 30, 2008, averaged $505 per month.

In addition to monthly per member contributions, the State also provided additional funding for the post-employment health care benefits (OPEB). The monthly per member contributions are intended to cover the current plan benefits whereas the additional funding is intended to build the funding reserve for future OPEB benefits. The total additional funding contributed during the years ended June 30, 2009 and 2008 was $31,568,817 and $15,646,388, respectively.

Member Premiums

Monthly member premiums for State employees are established annually by the Plan's Board of Trustees. These premiums are deducted from employee payroll checks in advance. Additionally, the Plan bills members who are not receiving payroll checks two weeks in advance.

Public Entity Premiums

Monthly public entity premiums are established annually by the Plan's Board of Trustees. The Plan bills the public entities two weeks in advance.

Deferred Premium Revenue

Deferred premium revenue includes premium revenue from the members, public entities and the State received in advance of the month coverage is provided.

Operating/Nonoperating Revenues

Operating revenues and expenses reflect items directly related to providing health benefits to members. Nonoperating revenues and expenses represent investment income and other items not directly related to providing health benefits to members.

H. Other Post-Employment Benefits

Retirees who had state-sponsored medical insurance coverage for at least two years (or since first eligible) before they are eligible to retire, based on their plan's criteria, may continue coverage into retirement. At June 30, 2009 and 2008, there were 17,864 and 17,613 retirees and their dependents who met these eligibility requirements, respectively.

During the years ended June 30, 2009 and 2008, expenditures (net of retiree contributions) of approximately $31.2 million and $29.2 million, respectively, were recognized for postretirement medical insurance coverage under the self-funded PPO option and $73.8 million and $64.2 million, respectively, under the HMO and self-insured HMO options.

Funded Status and Funding Progress

The funded status of the SRWBT as of the most recent actuarial valuation is as follows:

Schedule of Funding Progress

$ in Millions

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2009	$48.7	$1,629.9	$1,581.2	3%	$1,638.1	96.5%

The schedule of funding progress presents trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and revised estimates are made about future costs. The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial accrued valuation. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued benefits.

The accompanying schedule of employer contributions, presented as required supplementary information, presents trend information about the amounts contributed to the plan by employers in comparison to the amount that is actuarially determined in accordance with the requirements of GASB Statement No. 43. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Projections include a broad array of complex social and economic events such as the emergence of new and expensive medical procedures and prescription drug options, changes in investment rates of return, and other uncertainties. As such, the estimate of postretirement program costs contains considerable uncertainty and variability and actual experience may vary significantly from the current estimated obligation. Additional information as of the latest actuarial valuation follows:

Summary of Key Actuarial Methods and Assumptions

Valuation Year:	July 1, 2008 – June 30, 2009
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30 years, open, level percent of pay
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.5%
Projected payroll growth rate	4.0%
Heath care cost trend rate (Medical and Prescription Drugs combined)	9% in fiscal year 2009, decreasing by 2/3% per year to an ultimate of 5.0% in fiscal 2015 and after.

Employer Disclosures

Participating employers, upon their implementation of the related GASB #45, are required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used. Employer disclosures for MCHCP can be found in footnote M.

I. Medical Claims and Capitation

As of June 30, 2009 and 2008, the Plan insured approximately 80% of its members through various HMO contracts. Approximately 70% of the Plan's members were insured in the self-insured HMOs for both the years ended June 30, 2009 and 2008. Third party administrators are paid a contracted administrative fee per subscriber for the self-insured contracts with the Plan bearing all administrative and medical claims costs of providing coverage to the members. The fully insured HMOs are paid monthly based upon contracted capitation rates and current participation. The Plan bears no additional risk over the prevailing capitation rate for these contracts. As of June 30, 2009 and 2008, respectively, the Plan insured approximately 19% and 20% of it members under a self-insured PPO contract.

The liability for estimated accrued claims and processing costs is based on an actuarial estimate of the ultimate cost of settling such claims due and payable as of the balance sheet date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred for services provided but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment and utilization. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that actual results of the settlement of the claims are made and are known.

As of June 30, 2009 and 2008, $6,596,289 and $7,924,027, respectively, is included in accrued medical claims and capitation fee expenses for accrued HMO capitation expenses. Additionally, $57,314,381 and $48,545,200 at June 30, 2009 and 2008, respectively, is included in estimated accrued medical costs for claims incurred but not yet paid under the Plan's self-funded products. While management believes these estimates

are adequate, the ultimate liability may be more or less than the amounts recorded. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current operations. Contingent liabilities exist with respect to claims covered under the Plan in the event a contracted provider or carrier is unable to meet its obligations to the Plan. Changes in estimated accrued claims for fiscal years 2009 and 2008 can be viewed in the table below:

Summary of Changes in Estimated Accrued Claims

	2009 ISF	2009 SRWBT	2008 ISF	2008 SRWBT
Balance at beginning of year	$ 38,094,100	$ 10,451,100	$ 43,054,000	$ -
Allocation of beginning IBNR to OPEB	-	-	(9,531,513)	9,531,513
Current year claims and changes in estimates	262,059,415	106,326,874	219,141,625	94,765,455
Claim Payments	(254,117,134)	(105,499,974)	(214,570,012)	(93,845,868)
Balance at end of year	$ 46,036,381	$ 11,278,000	$ 38,094,100	$ 10,451,100

J. Retirement Plan

All of the Plan's full-time employees are eligible to participate in the Missouri State Employees' Plan (MSEP). MSEP is a single employer public employee retirement plan of the State of Missouri administered in accordance with Sections 104.010 and 104.312 to 104.1093 of the Revised Statutes of Missouri. Benefits are established by and can be amended by the State of Missouri legislative process. Responsibility for the operation and administration of MSEP is vested in the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. MSEP provides retirement, death and disability benefits to participants and their beneficiaries. MSEP is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a pension trust fund. MSEP issues a stand-alone report which may be obtained by contacting the MOSERS office located at 907 Wildwood, PO Box 209, Jefferson City, MO 65102.

With respect to the Plan, MSEP is accounted for and reported as a cost-sharing pension plan. Plan payroll for employees covered by MSEP for the years ended June 30, 2009 through 2007 was approximately $3.3 million for fiscal year 2009 and approximately $3.1 and $2.9 million for the years ended June 30, 2008 and 2007 respectively. These amounts also represent the Plan's total payroll, excluding related benefits. The Plan made 100% of its actuarially-determined required contributions for the years ended June 30, 2009, 2008, and 2007 which were approximately $418,00, $402,000 and $377,000, respectively. These contributions represented 12.75%, 12.84% and 12.78%, respectively, of covered payroll and are included in payroll and related benefit expense. Employees are not required to make contributions.

K. Deferred Compensation Plan

Effective September 1, 2007, legislation transferred responsibility for the administration of the Missouri State Employees' Deferred Compensation Program to the MOSERS Board of Trustees. On July 1, 2008, the plan administrator, Citistreet, joined ING to become ING Institutional Plan Services. Together as ING, the organization is one of the largest defined contribution plan providers and also provides defined benefit and health and welfare services. Effective July 31, 2008, employees are eligible upon hire to contribute to the deferred compensation plan and upon completing one year of employment are eligible to receive a maximum $35 contribution if the

employee also makes at least a $35 contribution. Prior to July 31, 2008, the maximum rate per month was $25 if the employee also made a $25 contribution.

The Deferred Compensation Plan is an eligible state deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Effective January 1, 1999, amounts deferred under the plan are held in trust for the exclusive benefit of the plan participants and their beneficiaries.

L. Employee Assistance Program

An employee assistance benefit program is offered to all State employees and their immediate families. The program, serviced through Magellan Health Services, offers six free mental health counseling sessions per episode per year and can be accessed 24 hours a day through a toll-free number.

M. Post-Employment Retiree Health Care

For the year ended June 30, 2008, MCHCP also adopted GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. However, all State agencies and component units are included in the State's post-employment retiree health care calculations. Thus, separate information is not available for MCHCP, which is a component unit of the State. For fiscal year 2009 and 2008, respectively, MCHCP contributed $164,707 and $128,412 for its employees in accordance with the State's funding policy toward the annual required contribution (ARC) for post-employment retiree health care. These financial statements include the OPEB Plan in which MCHCP participates. See note H for further information regarding the OPEB plan.

Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed*	Net OPEB Obligation
June 30, 2009	$125,340,490	73.0%	$69,538,206

*Actual contributions in fiscal 2009 of $91.4M which equals $60.3M for the State's net benefit payments and administrative costs plus an additional contribution to the trust of $31.1M.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Schedule of Claims Development

State Actives and Retirees

	FY 2009 (Total)	FY 2009 (Active)	FY 2009 (Retiree)	FY 2008 (Total)
	July 1, 08 - Jun 30, 09	July 1, 08 - Jun 30, 09	July 1, 08 - Jun 30, 09	July 1, 07 - Jun 30, 08
Required contribution and investment income	$490,081,984	$342,746,170	$147,335,814	$464,275,646
Administrative expenses	$15,060,109	$11,445,683	$3,614,426	$13,806,748
Estimated incurred claims and expenses end of policy year	$468,401,641	$373,413,711	$94,987,930	$418,738,680
Paid Claims Summary				
	FY 2009 (Total)	**FY 2009 (Active)**	**FY 2009 (Retiree)**	**FY 2008 (Total)**
Paid (cumulative) as of:	July 1, 08 - Jun 30, 09	July 1, 08 - Jun 30, 09	July 1, 08 - Jun 30, 09	July 1, 07 - Jun 30, 08
End of policy year	$388,429,000	$301,311,000	$87,118,000	$345,506,000
One year later	*	*	*	$392,432,000
Two years later	*	*	*	*
Incurred Claims Summary				
Re-estimated incurred claims and expenses:	**FY 2009 (Total)** July 1, 08 - Jun 30, 09	**FY 2009 (Active)** July 1, 08 - Jun 30, 09	**FY 2009 (Retiree)** July 1, 08 - Jun 30, 09	**FY 2008 (Total)** July 1, 07 - Jun 30, 08
End of policy year	$439,261,000	$341,983,000	$97,278,000	$393,897,000
One year later	*	*	*	$392,826,000
Two years later	*	*	*	*
Increase (decrease) in estimated incurred claims and expenses from end of policy year	$29,140,641	$31,430,711	($2,290,070)	$25,912,680

Note: Includes medical and drug claims only. Data prior to FY06 is not available. Chart does not include the HDHP plan.

*Data not yet available

FY 2008 (Active)	FY 2008 (Retiree)	FY 2007	FY 2006
July 1, 07 - Jun 30, 08	**July 1, 07 - Jun 30, 08**	**July 1, 06 - Jun 30, 07**	**July 1, 05 - Jun 30, 06**
$346,358,507	$117,917,139	$381,255,744	$417,566,923
$10,493,129	$3,313,619	$13,322,210	$10,257,575
$325,899,959	$92,838,721	$383,798,278	$341,932,335

FY 2008 (Active)	FY 2008 (Retiree)	FY 2007	FY 2006
July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08	July 1, 06 - Jun 30, 07	July 1, 05 - Jun 30, 06
$267,543,000	$77,963,000	$313,284,000	$289,320,000
*	*	$352,143,000	$319,137,000
*	*	$352,013,000	$319,239,000

FY 2008 (Active)	FY 2008 (Retiree)	FY 2007	FY 2006
July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08	July 1, 06 - Jun 30, 07	July 1, 05 - Jun 30, 06
$305,516,000	$88,381,000	$356,202,000	$321,711,000
*	*	$352,013,000	$319,239,000
*	*	$352,013,000	$319,239,000
$20,383,959	$4,457,721	$31,785,278	$22,693,335

Schedule of Funding Progress

SRWBT
$ in Millions

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll** [(b) - (a) / (c)]
June 30, 2009	$48.7	$1,629.9	$1,581.2	3%	$1,638.1	96.5%
June 30, 2008	$15.6	$1,276.3	$1,260.3	1.3%	$1,572.9	80.1%

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

** Payroll projected to June 30, 2008 at 4% annual increase based on actual payroll of $1,512.4 million as of July 1,2007.

Schedule of Employer Contributions

SRWBT

Fiscal Year Ending	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2009	$124,511,154	91,446,684	73.4%
June 30, 2008	$104,479,000	68,826,500*	65.9%

The State provided benefit payments and administrative costs of $60.3M and an additional contribution to the trust of $31.1M in fiscal 2009. The Statement of Changes in Plan Net Assests provides more details concerning these amounts.

*This equals State provided benefit payments and administrative costs of $53.36M and an additional contribution to the trust of $15.46M in fiscal 2008.

Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed*	Net OPEB Obligation
June 30, 2009	$125,340,490	73.0%	$69,538,206
June 30, 2008	$104,470,900	65.9%	$35,644,400

*Actual contributions for fiscal years 2009 and 2008 of $91.4M and $68.8M respectively, which equals $60.3M and $53.36M for the State's net benefit payments and administrative costs plus an additional contribution to the trust of $31.1M and $15.46M, respectively.

Summary of Key Actuarial Methods and Assumptions

	FY 2009	FY 2008
Valuation Year:	July 1, 2008 – June 30, 2009	July 1, 2007 – June 30, 2008
Actuarial cost method	Entry age normal, level percent of pay	Entry age normal, level percent of pay
Amortization method	30 years, open, level percent of pay	30 years, open, level percent of pay
Asset valuation method	Market Value	Market Value
Actuarial assumptions:		
Discount rate	7.5%	7.8%
Projected payroll growth rate	4.0%	4.0%
Heath care cost trend rate (Medical and Prescription Drugs combined)	9% in fiscal year 2009, decreasing by 2/3% per year to an ultimate of 5.0% in fiscal 2015 and after	10% in fiscal year 2008, decreasing by 1% per year to an ultimate of 5.0% in fiscal 2013 and after




STATISTICAL SECTION

Internal Service Fund Historical Data

Revenues by Source

Ten Years Ended June 30, 2009

Fiscal Year	State/Employer Contributions	Member Contributions	Public Entity Income	Pharmacy Rebates & Subsidy	Total Operating Revenues	Interest Income
2009*	$ 270,289,644	$ 65,348,201	$ 9,966,190	$ 4,603,754	$ 350,207,789	$ 2,504,570
2008*	276,886,166	57,339,368	10,008,570	5,033,832	349,267,936	7,099,139
2007	362,001,092	93,152,562	9,121,094	10,150,614	474,425,362	9,104,038
2006	319,465,109	84,069,097	8,989,197	8,104,447	420,627,850	5,928,270
2005	322,984,426	79,112,936	12,455,591	5,306,796	419,859,749	2,492,453
2004	281,657,137	84,756,549	18,201,930	5,169,299	389,784,915	765,034
2003	263,544,820	84,372,737	26,378,699	4,610,566	378,906,822	668,168
2002	222,987,803	75,701,524	37,630,463	–	336,319,790	968,329
2001	169,804,969	62,083,511	76,430,017	–	308,318,497	2,157,472
2000	108,821,820	48,561,768	94,336,655	–	251,720,243	2,125,779

Expenses by Type

Ten Years Ended June 30, 2009

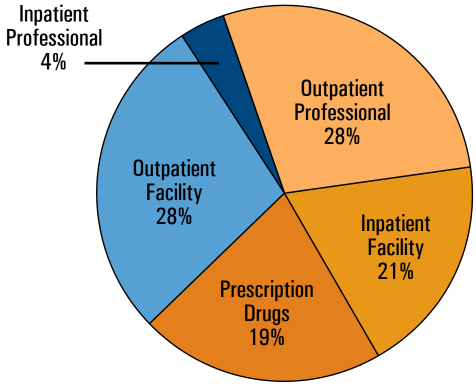
Fiscal Year	Medical Claims/ Capitation & Health Administrative Services	Administration & Payroll	Other	Total Operating Expenses & Fees	Loss on Disposal of Fixed Assets
2009*	$ 431,216,276	$ 4,809,936	$ 2,117,078	$ 438,143,290	–
2008*	376,273,599	4,451,041	1,823,192	382,547,832	–
2007	437,756,208	5,597,367	1,975,742	445,329,317	–
2006	396,446,979	5,309,717	2,108,558	403,865,254	–
2005	383,918,636	5,290,374	1,697,269	390,906,279	–
2004	366,923,269	5,364,366	1,549,405	373,837,040	(24,050)
2003	348,145,907	5,619,962	1,610,952	355,376,821	–
2002	334,208,591	5,314,606	1,795,708	341,318,905	(1,722)
2001	306,651,524	5,553,262	1,995,988	314,200,774	(5,101)
2000	258,313,998	5,493,142	2,608,799	266,415,939	(745)

*Activity for 2009 and 2008 is presented for active members only.

Distribution of Claim Payments

State Members

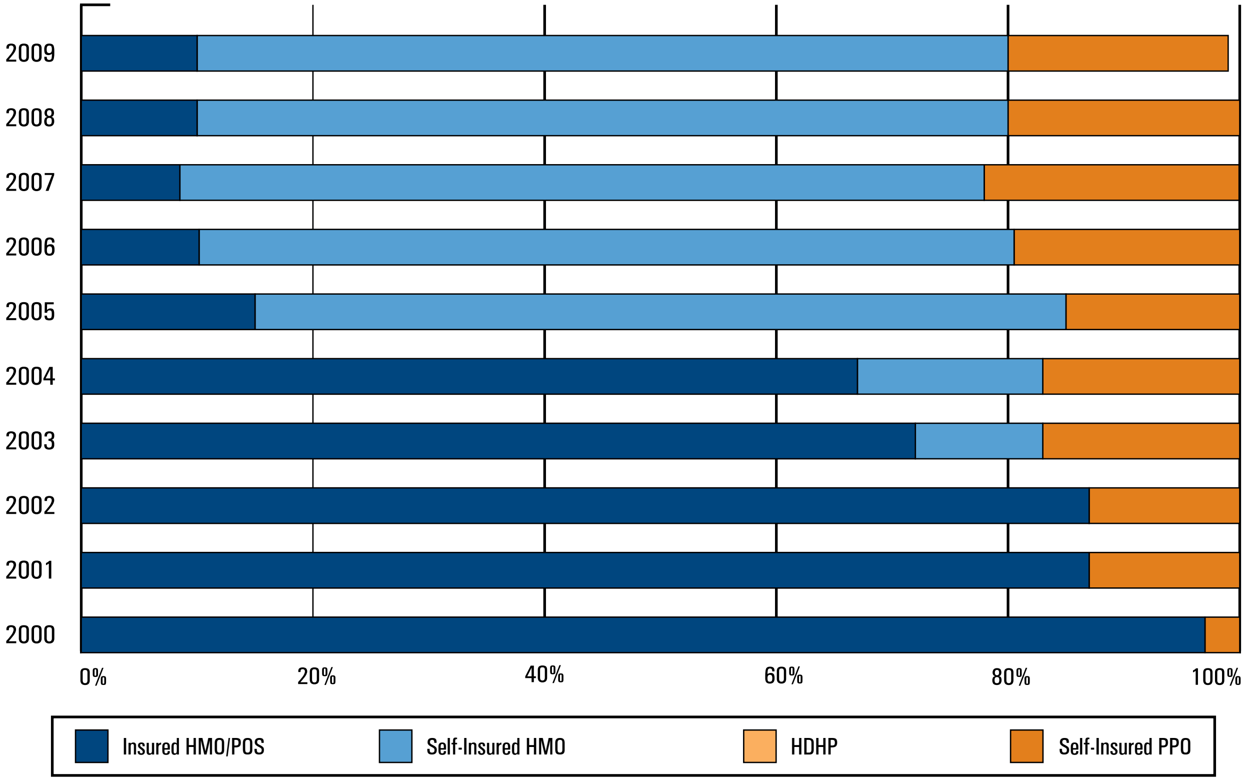
FY 09



Total Lives by Healthcare Option

State Members

2000-2009



Statements of Revenues, Expenses and Change in Net Assets

Internal Service Fund
Ten years ended June 30, 2009

	2009	2008	2007	2006
Operating revenues:				
State/employer contributions	$ 270,289,644	$ 276,886,166	$ 362,001,092	$ 319,465,109
Member contributions	65,348,201	57,339,368	93,152,562	84,069,097
Public entity contributions	9,966,190	10,008,570	9,121,094	8,989,197
Pharmacy rebates	4,603,754	5,033,832	5,678,206	5,539,208
Medicare Part D subsidy	–	–	4,472,408	2,565,239
Total operating revenues	350,207,789	349,267,936	474,425,362	420,627,850
Operating expenses:				
Medical claims and capitation expense	411,593,266	357,621,982	414,402,466	376,750,654
Claims administration services	15,104,342	14,432,722	17,604,641	16,857,025
Payroll and related benefits	3,605,582	3,291,979	4,123,871	3,887,880
Health Management	4,518,668	4,218,895	5,749,101	2,839,300
Administration	1,204,354	1,159,062	1,473,496	1,421,837
Professional services	1,137,039	907,127	816,500	1,004,715
Employee Assistance Program	696,380	674,601	881,723	874,492
Depreciation	283,659	241,464	277,519	229,351
Total operating expenses	438,143,290	382,547,832	445,329,317	403,865,254
Operating revenues over (under) operating expenses	(87,935,501)	(33,279,896)	29,096,045	16,762,596
Nonoperating revenues (expenses):				
Investment income	2,504,570	7,099,139	9,104,038	5,928,270
Loss on disposal of furniture, fixtures and equipment	–	–	–	–
Other nonoperating expenses	–	–	–	–
Change in the net assets	(85,430,931)	(26,180,757)	38,200,083	22,690,866
Net assets, beginning of year	106,225,525	132,406,282	94,206,199	71,515,333
Net assets, end of year	$ 20,794,594	$ 106,225,525	$ 132,406,282	$ 94,206,199

2005	2004	2003	2002	2001	2000
$ 322,984,426	$ 281,657,137	$ 264,052,867	$ 222,987,803	$ 169,804,969	$ 108,821,820
79,112,936	84,756,549	84,372,737	75,701,524	62,083,511	48,561,768
12,455,591	18,201,930	26,378,699	37,630,463	76,430,017	94,336,655
5,306,796	5,169,299	–	–	–	–
–	–	–	–	–	–
419,859,749	389,784,915	374,804,303	336,319,790	308,318,497	251,720,243
370,454,024	357,845,282	338,173,615	331,099,846	306,651,524	258,313,998
13,464,612	9,077,987	5,869,772	3,108,745	–	–
3,920,693	3,785,291	3,753,395	3,697,765	3,590,842	3,398,416
–	–	–	–	–	–
1,369,681	1,579,075	1,866,567	1,616,841	1,962,420	2,094,726
633,549	416,113	417,463	626,456	850,023	1,372,514
868,345	873,428	912,175	889,080	917,299	1,013,368
195,375	259,864	281,314	280,172	228,666	222,917
390,906,279	373,837,040	351,274,301	341,318,905	314,200,774	266,415,939
28,953,470	15,947,875	23,530,002	(4,999,115)	(5,882,277)	(14,695,696)
2,492,453	765,034	668,168	968,329	2,157,472	2,125,779
–	(24,050)	–	(1,722)	(5,101)	(745)
–	1,220	(7,460)	–	–	–
31,445,923	16,690,079	24,190,710	(4,032,508)	(3,729,906)	(12,570,662)
40,069,410	23,379,331	(811,379)	3,221,129	6,951,035	19,521,697
$ 71,515,333	$ 40,069,410	$ 23,379,331	$ (811,379)	$ 3,221,129	$ 6,951,035

Schedule of Net Assets by Component

Fiscal Years 2003 through 2009

	2009	2008	2007	2006	2005	2004	2003
Net assets:							
Investment in capital assets, net of liabilities	$ 488,735	$ 447,943	$ 400,575	$ 337,958	$ 371,501	$ 429,318	$ 589,457
Unrestricted	20,305,859	105,777,582	132,005,707	93,868,241	71,143,832	39,640,092	22,789,874
Total net assets	$ 20,794,594	$ 106,225,525	$ 132,406,282	$ 94,206,199	$ 71,515,333	$ 40,069,410	$ 23,379,331

Note: Due to reporting format changes prescribed by GASB Statement 34, only fiscal years 2003-2009 are presented.

State Membership Enrolled in MCHCP

Subscribers & Dependents

Ten Years Ended June 30, 2009

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	DISABLED Female	DISABLED Male	RETIREES Female	RETIREES Male	SURVIVORS Female	SURVIVORS Male	VESTED Female	VESTED Male	TOTAL
< 1	292	304			1		1				1		599
1 - 10	6,451	6,763	11	7	4	3	16	14	5	4	6	3	13,287
11 - 19	7,558	7,772	7	12	21	10	108	113	14	18	7	13	15,653
20 - 24	3,811	3,698	12	6	11	11	128	160	11	14	4	6	7,872
25 - 29	3,025	1,776	8	3		3	14	15		1		1	4,846
30 - 34	3,256	1,833	5	4	6		5	9					5,118
35 - 39	3,809	2,192	4	3	8	2	2	1		1	8	4	6,034
40 - 44	4,078	2,441	11	3	14	8	10	4	1	2	4	6	6,582
45 - 49	4,929	2,975	16	8	31	15	25	10	3	2	21	8	8,043
50 - 54	5,053	3,237	13	8	50	18	391	137	12	2	35	16	8,972
55 - 59	4,045	3,065	12	4	49	34	1,491	741	22	4	29	16	9,512
60 - 64	2,324	2,108	14	11	27	14	2,225	1,343	38	18	7	9	8,138
65 - 69	509	643	4	3	3	4	1,983	1,251	64	20	1	3	4,488
70 - 74	120	144			1	2	1,636	1,004	96	34			3,037
75 - 79	23	25				1	1,179	738	124	25			2,115
80 +	7	11					1,417	631	286	31	1	1	2,385
TOTAL	49,290	38,987	117	72	226	125	10,631	6,171	676	176	124	86	106,681

Year	Total Active	Total COBRA	Total Disabled	Total Retirees	Total Survivors	Total Vested	Total
2009	88,277	189	351	16,802	852	210	106,681
2008	85,884	135	390	16,538	821	254	104,022
2007	84,585	189	424	16,154	820	267	102,439
2006	83,129	192	466	15,668	819	298	100,572
2005	86,459	185	515	15,351	800	296	103,606
2004	85,200	181	541	15,128	792	326	102,168
2003	88,123	249	676	13,392	765	336	103,541
2002	90,639	295	658	12,997	725	377	105,691
2001	91,610	363	668	12,408	703	505	106,257
2000	95,135	531	670	10,786	658	966	108,746

Summary

Average Age:
37.81 years

Percent of Total:
Male - 42.76%
Female - 57.24%

Public Entity Enrolled in MCHCP

Subscribers & Dependents

Ten Years Ended June 30, 2009

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	RETIREES Female	RETIREES Male	TOTAL
< 1	4						4
1 - 10	58	14					72
11 - 19	95	19					114
20 - 24	59	17					76
25 - 29	80	13					93
30 - 34	96	21					117
35 - 39	110	23					133
40 - 44	117	14					131
45 - 49	159	22					183
50 - 54	175	33			2		210
55 - 59	199	24	1		1		227
60 - 64	151	16	3			1	173
65 - 69	37	6	3		3		46
70 - 74	21	4	6				31
75 - 79	3						3
80 +							
TOTAL	1,364	226	16		6	1	1,613
2009	Total Active 1,590		Total COBRA 16		Total Retirees 7		Total 1,613

2008	1,752	13	18	1,783
2007	1,851	18	11	1,880
2006	1,795	11	14	1,820
2005	1,654	5	24	1,683
2004	3,595	37	92	3,724
2003	4,900	47	122	5,069
2002	8,324	105	310	8,739
2001	15,217	183	525	15,925
2000	54,140	744	3,899	58,783

Summary

Average Age:
47.87 years

Percent of Total:
Male - 14.07%
Female - 85.93%

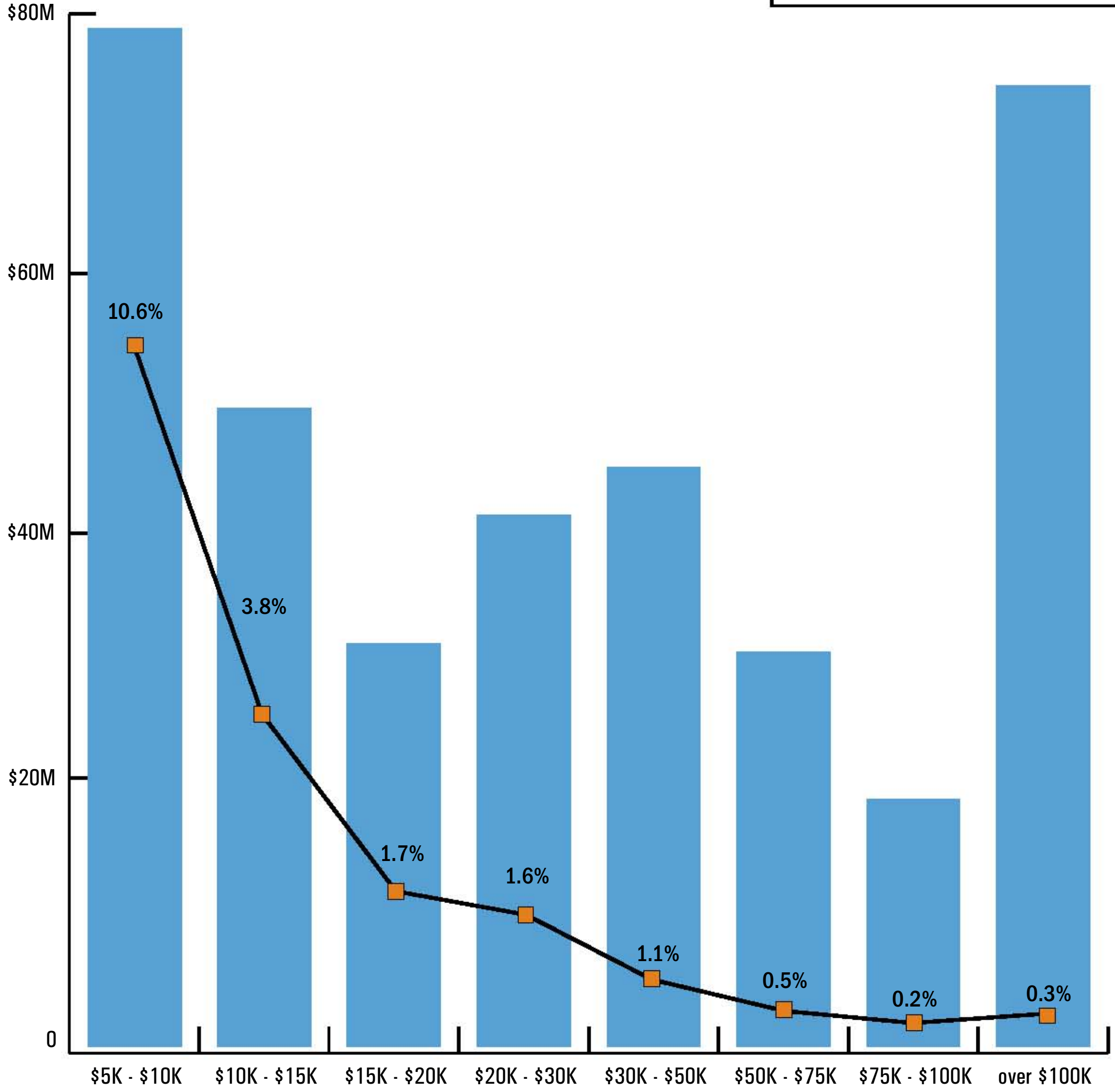
Paid Claims Distribution by Individual

State Members - FY 2009

Net Payment

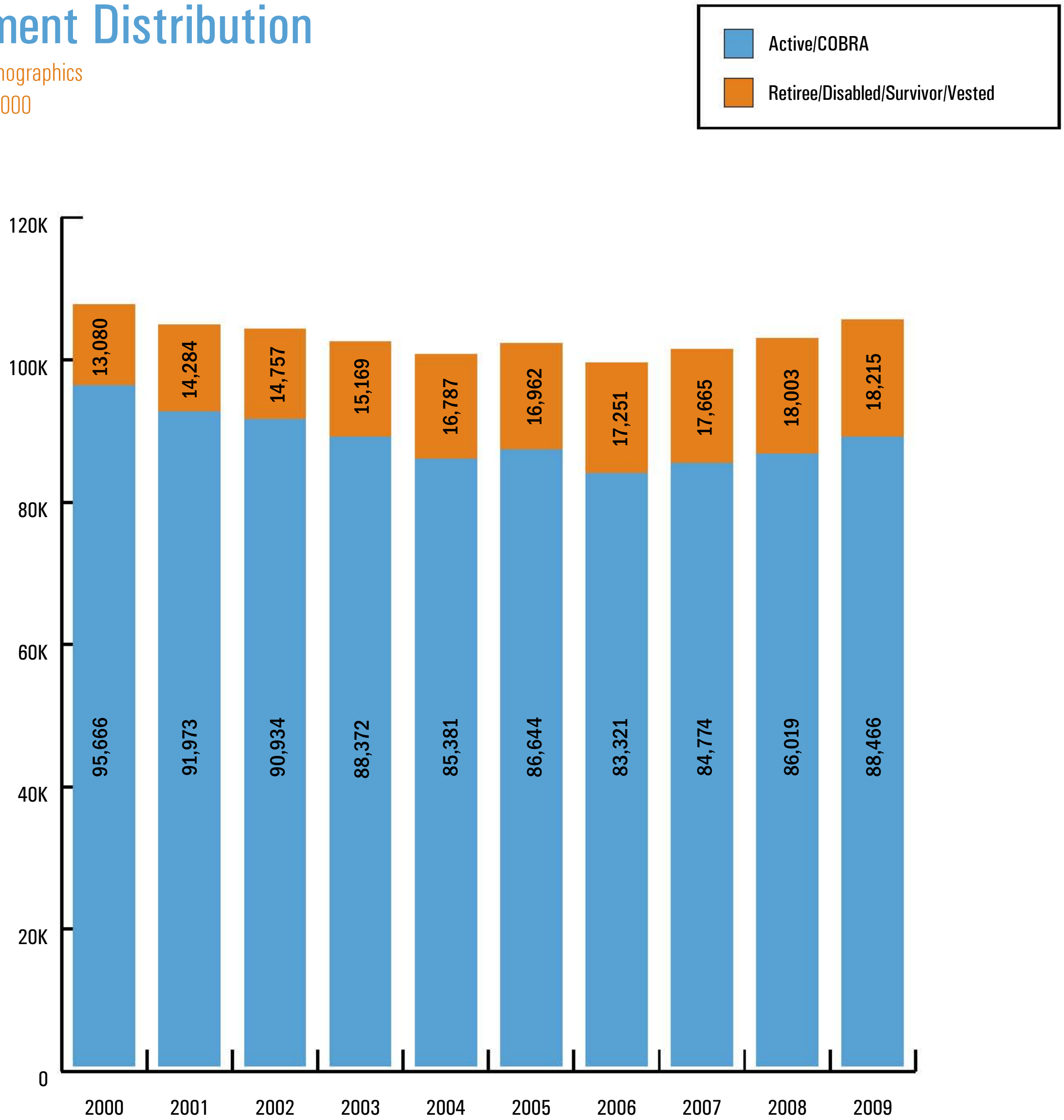
Percent of Membership

80.1% of membership accumulated $0-$5K in claims and accounted for $107.1M in cost.



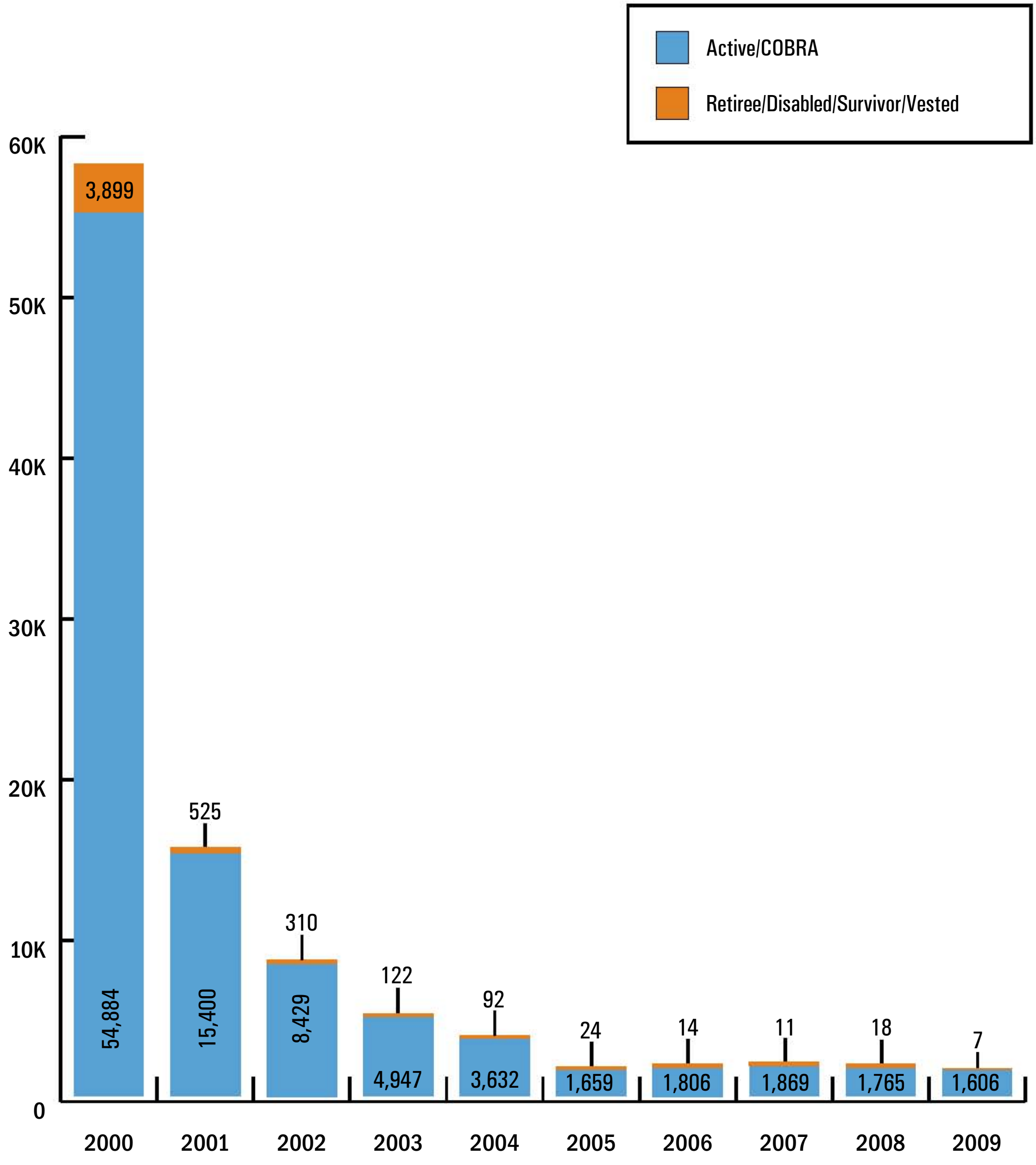
Enrollment Distribution

State Plan Demographics
FY 2009 - FY 2000



Enrollment Distribution

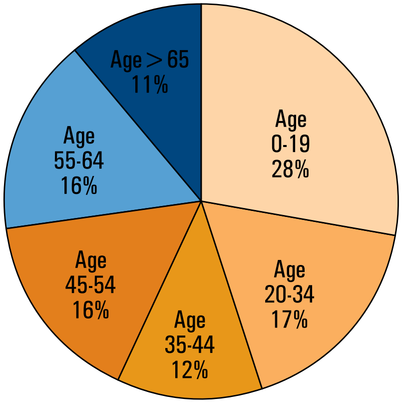
Public Entity Plan Demographics
FY 2009 - FY 2000



Plan Demographics

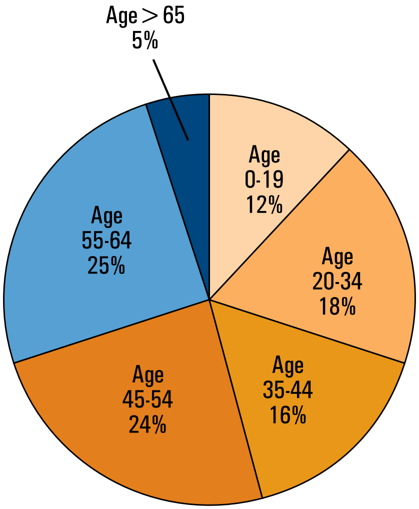
State Plan Demographics

FY 2009



Public Entity Plan Demographics

FY 2009



Membership by County

State Members

June 30, 2009

Illinois State Membership:	906
Kansas State Membership:	611
Out of Area State Membership:	1,156

Membership by County

Public Entity Members

June 30, 2009

Illinois State Membership:	0
Kansas State Membership:	0
Out of Area State Membership:	0

M·C·H·C·P

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